

MEMORANDUM

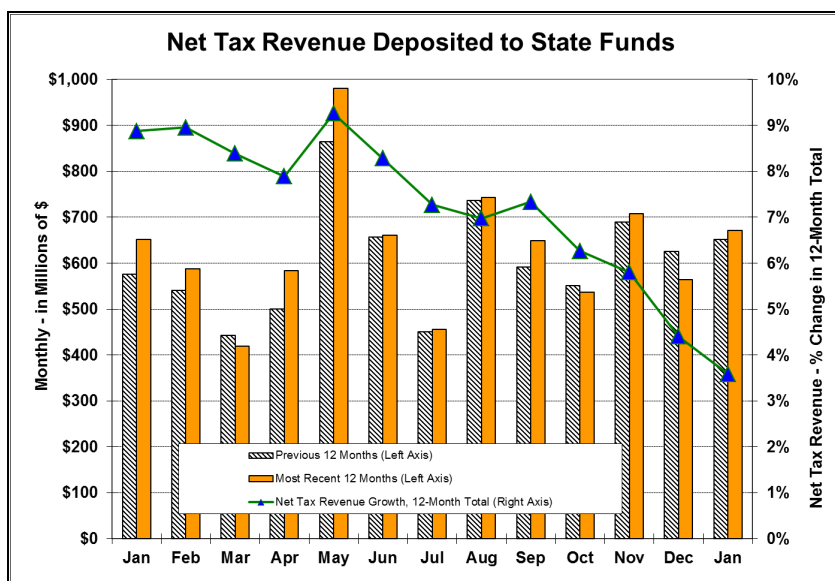
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: February 28, 2014

Twelve-month Total Net Tax Receipts Through January 31, 2014

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 2014 with comparisons to the previous 12 months. January 2013 to January 2014 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

The annual growth rate for Iowa total tax revenue reached 9.3% in May 2013. The growth rate for the most recent 12 months is 3.6%. While individual income tax revenue growth is still strong at 6.2%, the rate has declined significantly in the past nine months. Gambling tax and real estate transfer tax deposits have decreased recently, indicating that some of the overall revenue decline may be attributed to weather issues.

Month of January Comparison

January net tax receipts totaled \$670.8 million, an increase of \$19.4 million (3.0%) compared to January 2013. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$29.5 million, - 7.3%) – January 2014 estimate payment deposits were significantly below (\$22.2 million, -13.9%) the previous January. The likely cause of the decline is the federal income tax changes enacted January 1, 2013, an action that resulted in taxpayers altering their tax year 2012 income streams in preparation for potentially higher federal taxes starting 2013. Withholding tax deposits also declined for the second consecutive month.
- Sales/Use Tax (positive \$9.7 million, 6.5%)
 - Road Use Tax Fund use tax (fee for new vehicle registration) increased \$2.2 million.
 - General Fund sales/use tax receipts increased \$7.5 million. Gross sales/use tax receipts increased \$9.7 million while regular tax refunds decreased \$1.0 million and school infrastructure transfers out increased \$3.2 million.
- Corporate Income Tax (positive \$36.1 million, 1,002.8%) – The significant January increase was the result of a large increase in corporate income tax deposits (\$+27.0 million) and a decrease in refunds issued in the month (\$-9.1 million)
- Fuel Tax (positive \$6.4 million, 18.4%)
- Cigarette and Tobacco Taxes (positive \$1.5 million, 8.9%)
- Gambling Tax (positive \$0.6 million, 2.3%)

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending January 2014, net revenue from all taxes deposited to State funds totaled \$7.558 billion, an increase of \$261.8 million (3.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$199.7 million, 6.2%) – Individual income tax continues to post good year-over-year annual growth with much of the gain the result of very positive tax year 2012 income tax final returns. The 2012 tax year impacted General Fund revenue starting mid-December 2012 and ending May 2013. The annual rate of income tax revenue growth is expected to decline significantly through May 2014.
- Sales/Use Tax (positive \$51.0 million, 2.1%)
- Corporate Income Tax (positive \$1.6 million, 0.4%) – With the help of strong deposits and reduced refunds this January, annual corporate tax revenue, net of refunds, is now positive for the first time in four months.
- Fuel Tax (negative \$0.7 million, - 0.2%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 0.7% while taxable diesel sales increased 3.9%. The annual total for all taxable fuel gallons sold in Iowa is currently 2.8% below the last peak (12 months ending July 2011).
- Gambling Tax (negative \$6.6 million, - 2.2%) – According to Racing and Gaming Commission statistics, 15 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending January 2014. The combined AGR change for the 18 facilities was negative 3.2% over the previous 12 months. Across all facilities, the AGR for the most recent 12 months totaled \$1.412 billion. The annual AGR total has been declining and is 3.9% below the November 2012 peak.

- Real Estate Transfer Tax (negative \$0.8 million, - 4.2%) – The current negative 4.2% year-over-year annual growth represents the first time since August 2011 that real estate transfer tax growth dropped below zero.
- Cigarette and Tobacco Tax (positive \$0.6 million, 0.3%).

Tax Spotlight – Inheritance Tax

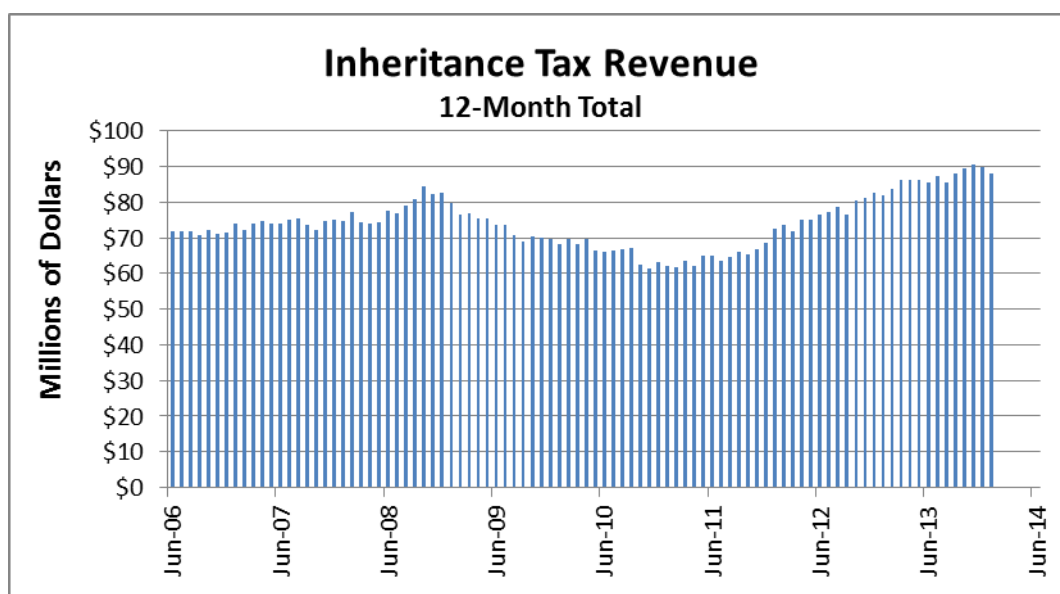
The category of inheritance tax includes an inheritance tax, the qualified use inheritance tax, the generation-skipping transfer tax, and the estate tax.

The inheritance tax is imposed under the authority of [Iowa Code chapter 450](#). Tax rates range from 5.0% to 15.0% depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax the estate must exceed \$25,000 in value. Spouses were exempted fully from inheritance tax with the passage of SF 356 (Department of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The Iowa generation skipping transfer tax ([Iowa Code chapter 450A](#)) is equal to the federal tax credit allowable for the State taxes paid. Currently the federal generation skipping transfer tax credit does not apply to estates so the State will not receive any revenue from the tax until the federal situation changes.

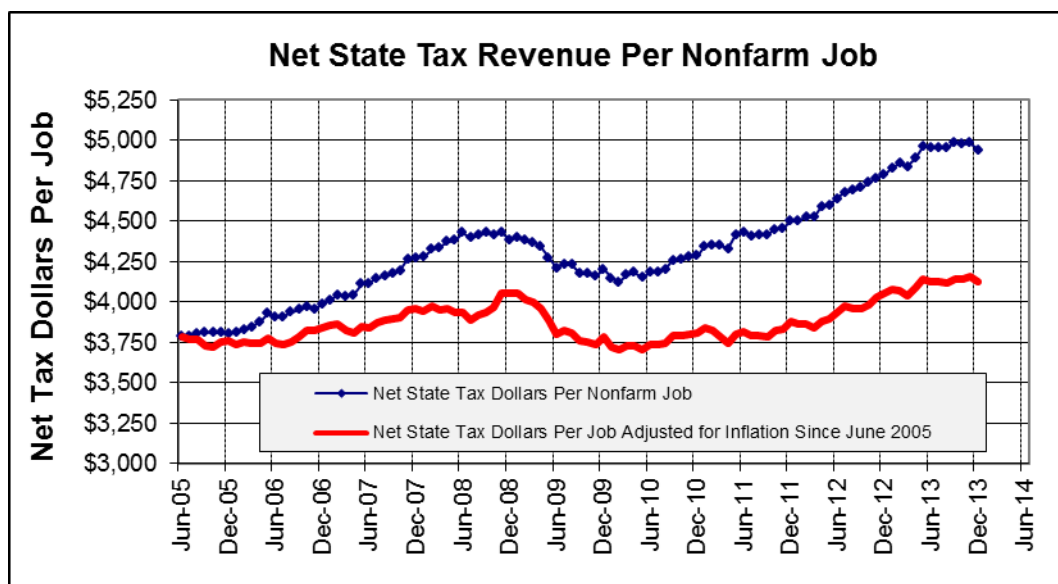
The qualified use inheritance tax is imposed under the authority of [Iowa Code chapter 450B](#). A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or business is sold to a nonrelative prior to the 10 years, the heir may be required to pay inheritance tax.

The Iowa estate tax ([Iowa Code chapter 451](#)) is equal to the federal tax credit allowable for State estate taxes paid. However, the federal law does not currently allow for a federal estate tax credit so [Iowa Code chapter 451](#) is inoperative and Iowa does not collect estate tax.

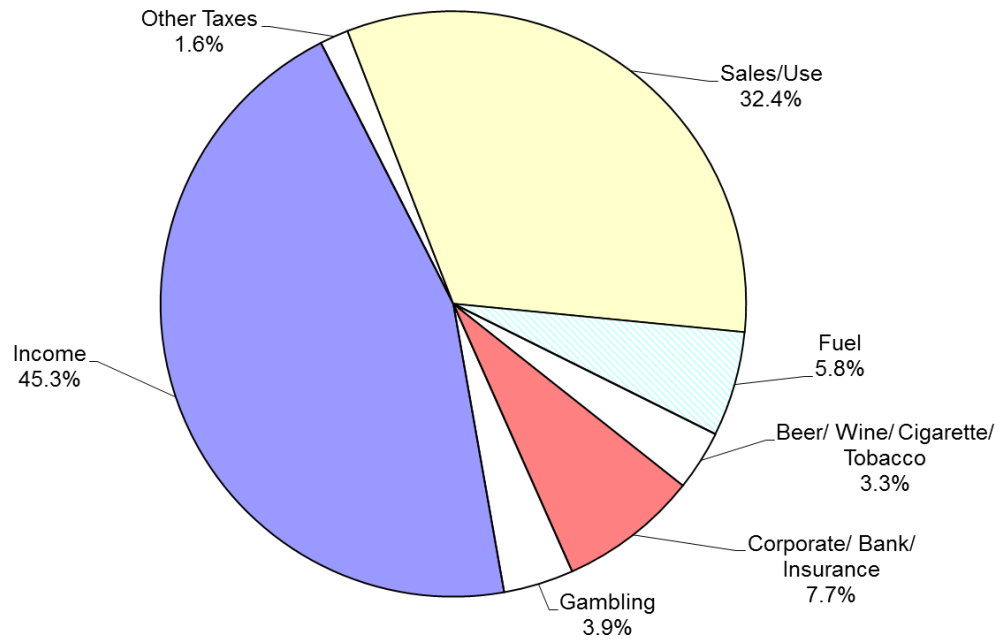


Tax Revenue and Employment

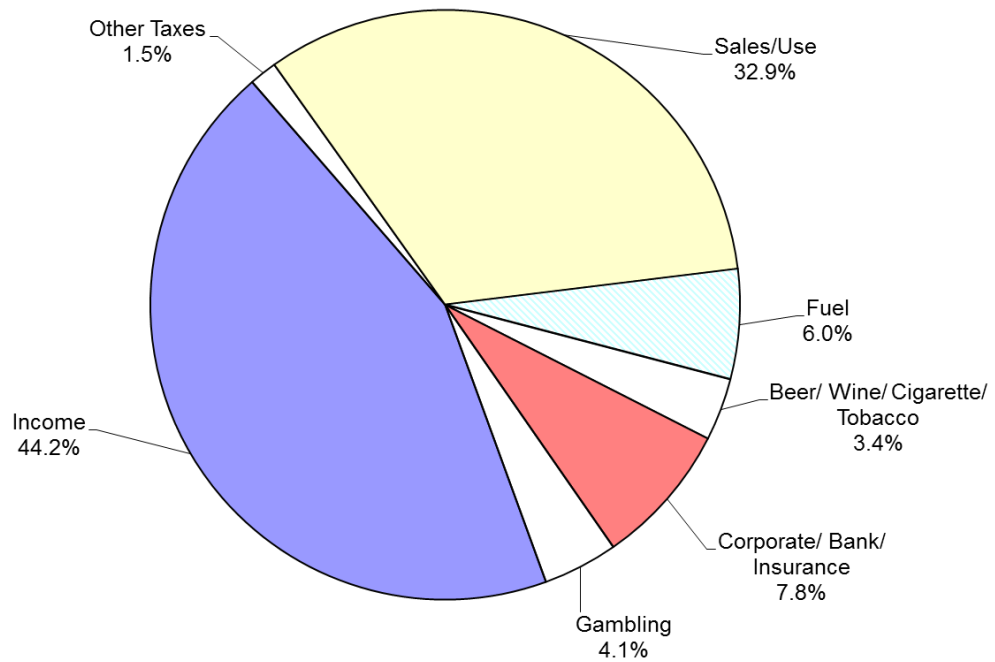
The average reading for Iowa nonfarm employment over the 12 months ending December 2013 is 1,526,000 and net State tax receipts over the same 12 months totaled \$7.539 billion, or \$4,940 per nonfarm job. This is \$1,155 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation adjusted tax revenue per job has increased \$338 since June 2005 and the remainder of the \$1,155 increase (\$817) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending January 2014
Net Revenue = \$7.558 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending January 2013
Net Revenue = \$7.296 Billion
Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of January 2013	Month of January 2014	January \$ Change	January % Change
Banking	\$ 31.8	\$ 35.1	\$ 3.3	10.4%	\$ 5.7	\$ 3.4	\$ - 2.3	-40.4%
Beer & Wine	22.0	21.9	- 0.1	-0.5%	1.9	2.0	0.1	5.3%
Cigarette & Tobacco	227.9	228.5	0.6	0.3%	16.8	18.3	1.5	8.9%
Corporate Income	438.2	439.8	1.6	0.4%	3.6	39.7	36.1	1002.8%
Fuel	438.8	438.1	- 0.7	-0.2%	34.8	41.2	6.4	18.4%
Gambling	299.7	293.1	- 6.6	-2.2%	26.4	27.0	0.6	2.3%
Individual Income	3,224.6	3,424.3	199.7	6.2%	402.4	372.9	- 29.5	-7.3%
Inheritance	81.9	88.2	6.3	7.7%	7.3	5.8	- 1.5	-20.5%
Insurance	102.1	106.2	4.1	4.0%	0.1	0.0	- 0.1	-100.0%
Other Taxes	9.7	13.1	3.4	35.1%	0.2	- 0.1	- 0.3	-150.0%
Real Estate Transfer	19.2	18.4	- 0.8	-4.2%	3.3	2.0	- 1.3	-39.4%
Sales/Use	2,400.3	2,451.3	51.0	2.1%	148.9	158.6	9.7	6.5%
Total Net Taxes	<u>\$ 7,296.2</u>	<u>\$ 7,558.0</u>	<u>\$ 261.8</u>	3.6%	<u>\$ 651.4</u>	<u>\$ 670.8</u>	<u>\$ 19.4</u>	3.0%
Gross Tax & Refunds								
Gross Tax	\$ 8,542.6	\$ 8,911.0	\$ 368.4	4.3%	\$ 710.9	\$ 722.7	\$ 11.8	1.7%
Tax Refunds	\$ - 1,246.2	\$ - 1,353.0	\$ - 106.8	8.6%	\$ - 59.5	\$ - 52.0	\$ 7.5	-12.6%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,155.3	\$ 6,331.5	\$ 176.2	2.9%	\$ 564.7	\$ 557.0	\$ - 7.7	-1.4%
Road Use Tax Fund	\$ 754.0	\$ 776.5	\$ 22.5	3.0%	\$ 58.3	\$ 66.9	\$ 8.6	14.8%
Non-GF Gambling	\$ 256.9	\$ 290.8	\$ 33.9	13.2%	\$ 26.5	\$ 26.9	\$ 0.4	1.5%
Other State Funds	\$ 130.2	\$ 159.1	\$ 28.9	22.2%	\$ 2.0	\$ 20.0	\$ 18.0	900.0%
Local Option Taxes *	\$ 861.6	\$ 903.3	\$ 41.7	4.8%	\$ 58.9	\$ 61.6	\$ 2.7	4.6%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning FY 2014, all cigarette and tobacco tax revenue is deposited to the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database: The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.